



**REVIEW OF INDEPENDENT AUDITS OF
FIRE PROTECTION DISTRICTS
IN GREENE COUNTY**

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2004-18
March 8, 2004
www.auditor.mo.gov**

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

March 2004

IMPORTANT: The annual review of audits of fire protection districts in Greene County has been completed. This review covered reports for the years ended December 31, 2002 that were required to be submitted to the State Auditor's office within six months after the year end.

State law requires Greene County fire protection districts with revenues in excess of \$50,000 annually to cause an audit to be performed on a biennial basis. For those districts with annual revenues of less than \$50,000, the State Auditor may exempt the district from the audit requirement if the appropriate reports are filed.

For those districts for which an audit is required, the district must file a copy of the completed audit report and management letter with the State Auditor within six months after the close of the fiscal year.

The State Auditor's Office accepted all seven of the twelve districts' audit reports that were required for the year(s) ended December 31, 2002. One other district submitted unaudited financial statements.

This report includes information about the districts' revenues, expenditures, and balances, and summarizes comments made by the various districts' independent auditors including recommendations for improving accountability and management of finances.

All reports are available on our website: www.auditor.mo.gov

YELLOW SHEET

REVIEW OF INDEPENDENT AUDITS OF FIRE PROTECTION
DISTRICTS IN GREENE COUNTY

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Bob Holden, Governor
and
Members of the General Assembly
and
Boards of Directors of Fire Protection
Districts in Greene County

Fire protection districts in Greene County are required by Section 321.690, RSMo 2000, to be audited. We have conducted a review of these independent audits of the fire protection districts in Greene County. The objectives of this review were to:

1. Evaluate the impact of, and the districts' compliance with, statutory audit requirements and State Auditor's regulations on the effectiveness of financial reporting and auditing for fire protection districts in Greene County.
2. Notify the various fire protection districts and independent auditors of any specifically identifiable reporting deficiencies that should be considered and corrected in future audit reports.
3. Summarize and evaluate the financial data presented for the various fire districts, and any comments for improvements made by the independent auditors.

Our review was limited to the specific matters described above and was based on selective procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The State Auditor's office has reviewed fire protection districts' audit reports for several years and noted many improvements. It appears that the fire protection districts, on the whole, are working to improve the quality of their financial reporting. The format of this report includes an executive summary and a scope and methodology section describing what work was performed. We solicit from the readers of this report any suggestions for changes or requests for other new information that may benefit those involved with the Greene County fire protection districts.

While the State Auditor will continue to review the CPA audits and correspond with districts, future reporting of such information will be done on a biennial basis beginning with the years ended December 31, 2003 and 2004.

A handwritten signature in black ink, reading "Claire C. McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire C. McCaskill
State Auditor

October 30, 2003 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
Audit Manager:	Donna Christian, CPA
In-Charge Auditor:	Ted Fugitt, CPA

EXECUTIVE SUMMARY

REVIEW OF INDEPENDENT AUDITS OF
FIRE PROTECTION DISTRICTS
IN GREENE COUNTY
EXECUTIVE SUMMARY

Section 321.690, RSMo 2000, requires all fire protection districts in Greene County with revenues in excess of \$50,000 annually to cause an audit to be performed on a biennial basis. For those districts with annual revenues of less than \$50,000, the State Auditor may exempt the district from the audit requirement if the appropriate reports are filed. Based upon the financial statement filed, the West Republic Fire Protection District had annual revenues of less than \$50,000, therefore it was exempted from the audit requirement.

For those districts for which an audit is required, the district must file a copy of the completed audit report and management letter with the State Auditor within six months after the close of the fiscal year. The audit reports and management letters are reviewed to determine that they are prepared according to guidelines contained within the Code of State Regulations (CSR) (Section 15 CSR 40-4). Any weaknesses noted during the review are communicated to the districts by letter. Should the weaknesses be of a serious enough nature to require the report to be amended, the district is granted a ninety-day period from the date of notification by the State Auditor to correct the report. The State Auditor accepted all seven of the audit reports that were received for the year(s) ended December 31, 2002.

Some instances of non-compliance were noted during our review of the fire protection districts' audit reports. The problems noted included, failure to submit an audit report to the State Auditor's office (SAO) by the required date, failure to submit engagement letters to the SAO prior to the commencement of audit fieldwork, and failure to include some needed comments and recommendations in management letters.

One of the seven audit reports was received after the June 30, 2003, statutory deadline. This was the audit report for the Fair Grove Fire Protection District which was received October 14, 2003. Fire district board members should continue to ensure that audits are completed and submitted by the statutory deadline.

We reviewed the relationship of the General Fund balance at December 31, 2002 to the year's expenditures for the districts receiving an audit for the year(s) ended December 31, 2002. The financial status of the Greene County Fire Protection Districts has remained fairly consistent over the past several years. Two districts, Brookline and Willard, had fund balances greater than one year's cost of operations. Willard has maintained a year end General Fund balance greater than one year's cost of operations for the three previous years. The fire districts must continue to evaluate the propriety of their tax levies to ensure that excess revenues are not being received and accumulated.

The fire protection districts are continuing to add to their capital structure in land, buildings and equipment each year. The Battlefield Fire Protection District showed the largest increase in general fixed assets with the addition of over \$700,000 to land and buildings. Assessed

valuations for the districts continue to increase and tax rates remained steady from 2001 to 2002 with no voter approved increases in levies.

Independent auditors made specific recommendations to improve the overall management of the fire districts. Recommendations included concerns regarding expenditures, budgets, donation of property, accounting records and various other policies and procedures. Each fire district should review all recommendations and the applicability to their individual district. Consideration should be given by individual districts to have their independent auditor review any areas where risk and citizen concern may be evident.

SCOPE AND METHODOLOGY

REVIEW OF INDEPENDENT AUDITS OF
FIRE PROTECTION DISTRICTS
IN GREENE COUNTY
SCOPE AND METHODOLOGY

Scope

At December 31, 2002, there were twelve fire protection districts in Greene County. Audit reports and financial statements have been received as follows:

1. The Battlefield, Ebenezer, Logan-Rogersville, Strafford, and Willard Fire Protection Districts obtained audits for the year ended December 31, 2002. The Brookline and Fair Grove Fire Protection Districts obtained audits for the two years ended December 31, 2002.
2. The Ash Grove, Bois D'Arc, and Pleasant View Fire Protection Districts have not been required to receive an audit in the past as annual revenues have not exceeded \$50,000. However, each of these districts did have revenues exceeding \$50,000 for the year ended December 31, 2002 and plan to obtain audits for the two years ended December 31, 2003. The Walnut Grove Fire Protection District received an audit for the two years ended December 31, 2001 and plans to obtain one for the two years ended December 31, 2003. No information is presented in this report for these four districts for the year ended December 31, 2002.
3. The West Republic Fire Protection District was not required to obtain an audit. Information presented in this report was obtained from unaudited information provided by the district.

During our review we: 1) considered Section 321.690, RSMo 2000 (Appendix A), 15 CSR 40-4 (Appendix B), and audit reports submitted to the State Auditor by the various fire districts for the year(s) ended December 31, 2002, 2) reviewed the supporting working papers of various independent auditors' reports for the year(s) ended December 31, 2002, (information contained in the working papers constitutes the principal record of work the auditor has accomplished and provides evidence for conclusions that he has reached concerning significant matters), 3) obtained audit fees for fire districts receiving audits through inquiry of the independent auditors performing the audits, and 4) reviewed unaudited financial information provided by the West Republic Fire Protection District. In addition, financial data for the year ended December 31, 2001, has been presented for comparative purposes.

Methodology

We compiled the following schedules to accomplish the objectives of this report:

- Schedule 1 presents revenues, expenditures, and fund balance for the General Funds in a combined format. The General Fund is the general operating fund of the district and is used to account for all operating resources. In analyzing this schedule, some disparity will result

due to the different methods of presenting essentially the same information. Reasons for some problems in comparison are as follows. The financial statements of the Battlefield, Brookline, Ebenezer, Fair Grove, Logan-Rogersville, Strafford, and Willard Fire Protection Districts are presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized in the fiscal period in which they become available and measurable. Expenditures are recognized in the fiscal period in which the related liability is incurred. The financial statements of the Ash Grove, Bois D'Arc, Pleasant View and West Republic Fire Protection Districts are presented on a cash basis of accounting. The ending balances represent cash balances. Revenues are recognized when received in cash and expenditures are recognized when disbursed in cash. The financial statements of the Walnut Grove Fire Protection District are presented on a modified cash basis of accounting and include the general fixed asset balance in the general operating fund of the district. Under this basis of accounting and financial statement presentation, the ending balances represent cash balances plus general fixed asset balances, net of liabilities. Revenues are recognized when received in cash, and expenditures are recognized when paid in cash.

- Schedule 2 presents the general fixed asset balances of the districts at December 31, 2002, with comparative totals of general fixed assets at December, 31 2001. Only three of the districts, Brookline, Logan-Rogersville and Walnut Grove, record depreciation on assets. Therefore for purposes of comparability, amounts on Schedule 2 are shown at cost or estimated value. Presented are only the fire protection districts that obtained an audit for 2001 or 2002.
- Schedule 3 presents the assessed valuations of the individual fire protection districts as well as tax levies as submitted by the districts to the State Auditor's office.
- Schedule 4 is a listing of the audit fees for each fire protection district receiving an audit. This information was obtained through inquiry of the independent auditors who performed the audits.
- Schedule 5 is a listing of total compensation and expense reimbursement paid to directors by each district audited. The districts' independent audit reports included the names of the principal officeholders during the year ended December 31, 2002 and 2001, and the compensation and expense reimbursement received by each official in the performance of his or her duty as established by Section 321.190, RSMo 2000. However it was unclear whether the audit reports for the Strafford and Willard Fire Protection Districts included expense reimbursement to directors. The districts have three-member boards of directors, except for the Brookline, Logan-Rogersville and Willard Fire Protection Districts which have five-member boards. When more than three or five names were listed, it was due to a change in the officials serving on the board.
- Schedule 6 is a summary of the various comments contained in the independent auditor's reports on compliance and internal control and in the management letters received by the State Auditor. These comments apply to individual fire protection districts unless otherwise noted. The comments extracted from the reports and management letters were not verified

by the State Auditor's office via additional audit procedures for accuracy, validity, or completeness.

Limitations

Some data presented in the schedules was compiled from information submitted by the various fire districts and their independent auditors and was not verified by us via additional audit procedures. In analyzing these schedules, some disparity will result due to the different methods of presenting essentially the same information.

SCHEDULES

Schedule 1

REVIEW OF INDEPENDENT AUDITS OF FIRE PROTECTION DISTRICTS IN GREENE COUNTY
COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES, AND BALANCES

District	Year Ended December 31,						
	2001			2002			
	Beginning Balance	Revenues	Expenditures	Ending Balance	Revenues	Expenditures	Ending Balance
Ash Grove	\$ 2,839	48,418	47,454	3,803		*	
Battlefield	1,404,946	832,539	970,688	1,266,797	857,330	1,266,890	857,237
Bois D'Arc	1,193	28,990	28,266	1,917		*	
Brookline	198,055	537,886	549,160	186,781	200,127	149,412	237,496
Ebenezer	91,463	207,839	110,086	189,216	205,450	199,942	194,724
Fair Grove	67,768	109,480	109,575	67,673	163,682	132,057	99,298
Logan-Rogersville	482,146	557,067	532,026	507,187	648,047	583,040	572,194
Pleasant View	0	43,457	43,487	(30)		*	
Strafford	186,389	193,224	165,884	213,729	240,648	230,415	223,962
Walnut Grove	90,357	75,013	62,037	103,333		*	
West Republic	12,667	47,436	52,662	7,441	45,517	15,024	37,934
Willard	326,952	267,775	238,514	356,213	250,160	205,395	400,978
	\$ 2,864,775	2,949,124	2,909,839	2,904,060	2,610,961	2,782,175	2,623,823

* District plans to obtain an audit for the two years ended December 31, 2003.

Schedule 2

REVIEW OF INDEPENDENT AUDITS OF FIRE PROTECTION DISTRICTS IN GREENE COUNTY
SCHEDULE OF GENERAL FIXED ASSETS

District	December 31, 2002			December 31,
				2001
	Land and Buildings	Furniture and Equipment	Total	Total
Battlefield	\$ 2,244,655	1,612,036	3,856,691	3,154,788
Brookline	190,370	607,177	797,547	774,955
Ebenezer	158,380	354,687	513,067	468,454
Fair Grove	113,428	347,182	460,610	451,923
Logan-Rogersville	991,638	1,459,022	2,450,660	2,416,553
Strafford	280,083	529,066	809,149	751,733
Walnut Grove			*	257,484
Willard	317,590	976,906	1,294,496	1,288,098
	\$ 4,296,144	5,886,076	10,182,220	9,563,988

* District plans to obtain an audit for the two years ended December 31, 2003.

Schedule 3

REVIEW OF INDEPENDENT AUDITS OF FIRE PROTECTION DISTRICTS IN GREENE COUNTY
COMPARATIVE SCHEDULE OF ASSESSED VALUATIONS AND TAX LEVIES
YEARS ENDED DECEMBER 31, 2002 AND 2001

District			Tax Levy Per \$100 of Assessed Valuation	
	Assessed Valuation		General	
	2002	2001	2002	2001
Ash Grove	\$ 19,305,949	19,264,697	0.2558	0.2521
Battlefield	315,105,420	299,940,846	0.2611	0.2611
Bois D'Arc	16,347,459	15,997,681	0.3853	0.3853
Brookline	69,549,771	66,062,605	0.2593	0.2575
Ebenezer	73,815,528	72,845,897	0.2933	0.2919
Fair Grove	41,877,818	40,770,748	0.1820	0.1800
Logan-Rogersville	244,322,365	223,607,618	0.2539	0.2523
Pleasant View	23,000,500	22,560,650	0.3000	0.3000
Strafford	84,266,743	73,819,475	0.2498	0.2498
Walnut Grove	27,507,008	26,813,755	0.2929	0.2929
West Republic	17,318,071	17,123,173	0.2657	0.2645
Willard	89,101,370	88,181,588	0.2641	0.2573

Schedule 4

REVIEW OF INDEPENDENT AUDITS OF FIRE PROTECTION DISTRICTS IN GREENE COUNTY
SCHEDULE OF FEES FOR AUDIT SERVICES

District	Audit	Fees	
Battlefield	\$	4,750	*
Brookline		3,350	**
Ebenezer		1,559	*
Fair Grove		4,000	**
Logan-Rogersville		4,950	*
Strafford		2,300	*
Willard		3,400	*

* Audit was for the year ended December 31, 2002.

** Audit was for the two years ended December 31, 2002.

Schedule 5

REVIEW OF INDEPENDENT AUDITS OF FIRE PROTECTION DISTRICTS IN GREENE COUNTY
SCHEDULE OF COMPENSATION PAID TO DIRECTORS BY DISTRICT

District	2002	2001
Battlefield	\$ 6,500	\$ 5,684
Brookline**	530	93
Ebenezer	0	0
Fair Grove**	0	73
Logan-Rogersville**	6,075	5,625
Strafford	4,200	10,350
Walnut Grove**	*	4,655
Willard	0	0

* The district plans to obtain an audit for the two years ended December 31, 2003.

** Includes expense reimbursements.

Schedule 6

REVIEW OF INDEPENDENT AUDITS OF FIRE PROTECTION DISTRICTS IN GREENE COUNTY SUMMARY OF MANAGEMENT LETTER COMMENTS ISSUED BY AUDITORS IN CONNECTION WITH THE AUDITS OF THE YEAR(S) ENDED DECEMBER 31, 2002

Expenditures/Purchasing

- There was not a formal written bid policy.
- Expenditures were made for Christmas gifts and decorations which represented use of taxpayer funds for purposes outside the normal course of fire protection.

Budgets

- In two districts the budget did not contain all of the required components as specified by Chapter 67 RSMo.
- Three districts had actual expenditures which exceeded budgeted expenditures.

Donation

- Used equipment belonging to a district was donated to another fire district rather than being sold and the proceeds being used to benefit the district that owned the equipment.

Accounting Records and Procedures

- 1099's were not issued in applicable circumstances as required by federal law.
- Interim financial statements did not report cash and certificate of deposit balances.
- There was a lack of segregation of duties for four districts.
- Board approval for the renewal of certificates of deposit was not documented in the minutes.

APPENDICES

Missouri Revised Statutes

**Chapter 321
Fire Protection Districts
Section 321.690**

Audits to be performed, when--rules established by state auditor (Christian County fire protection districts exempt from audits).

321.690. 1. In counties of the first classification having a charter form of government and having more than nine hundred thousand inhabitants and in counties of the first classification which contain a city with a population of one hundred thousand or more inhabitants which adjoins no other county of the first classification, the governing body of each fire protection district shall cause an audit to be performed consistent with rules and regulations promulgated by the state auditor.

2. (1) All such districts shall cause an audit to be performed biennially. Each such audit shall cover the period of the two previous fiscal years.

(2) Any fire protection district with less than fifty thousand dollars in annual revenues may, with the approval of the state auditor, be exempted from the audit requirement of this section if it files appropriate reports on its affairs with the state auditor within five months after the close of each fiscal year and if these reports comply with the provisions of section 105.145, RSMo. These reports shall be reviewed, approved and signed by a majority of the members of the governing body of the fire protection district seeking exemption.

3. Copies of each audit report must be completed and submitted to the fire protection district and the state auditor within six months after the close of the audit period. One copy of the audit report and accompanying comments shall be maintained by the governing body of the fire protection district for public inspection at reasonable times in the principal office of the district. The state auditor shall also maintain a copy of the audit report and comment. If any audit report fails to comply with the rules promulgated by the state auditor, that official shall notify the fire protection district and specify the defects. If the defects specified are not corrected within ninety days from the date of the state auditor's notice to the district, or if a copy of the required audit report and accompanying comments have not been received by the state auditor within six months after the end of the audit period, the state auditor shall make, or cause to be made, the required audit at the expense of the fire protection district.

4. The provisions of this section shall not apply to any fire protection district based and substantially located in a county of the third classification with a population of at least thirty-one thousand five hundred but not greater than thirty-three thousand.

(L. 1977 H.B. 216, A.L. 1981 S.B. 200, A.L. 1986 H.B. 877, A.L. 1991 S.B. 34, A.L. 1993 H.B. 177 and S.B. 346, A.L. 1998 H.B. 1847)

**Rules of
Elected Officials
Division 40—State Auditor
Chapter 4—Audits of Fire Protection Districts
in St. Louis and Greene Counties**

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Title 15—ELECTED OFFICIALS**Division 40—State Auditor
Chapter 4—Audits of Fire Protection
Districts in St. Louis and Greene
Counties****15 CSR 40-4.010 Requirements for Dis-
tricts**

PURPOSE: The state auditor has authority to establish standards and reporting requirements for audits performed on fire protection districts in St. Louis and Greene Counties. This rule sets forth requirements to be met directly by the district.

(1) The district is responsible for preparing and providing financial information to be included in the audit report. The district shall maintain adequate accounting records for that purpose. These records may be maintained on the bases of accounting deemed appropriate by the district but the records shall provide adequate information to allow the district to report in accordance with generally accepted accounting principles.

(2) The district shall engage an independent auditor to conduct the audit. The state auditor does not recommend, select or approve the district's auditor or the auditor's fee, except as provided in 15 CSR 40-4.010(4). The district is responsible for fulfilling all contractual obligations with the auditor, including payment of all earned fees.

(3) The district shall require from the independent auditor an engagement letter which sets out all essential particulars. A copy of the engagement letter shall be submitted to the state auditor for his/her review before commencement of audit fieldwork. The purpose of this review is to provide reasonable assurance that the district has contractually committed an auditor to provide services to satisfy requirements of 15 CSR 40-4. The contents of this letter should include, but are not limited to:

(A) Period for which the financial statements are audited;

(B) Purpose of the audit;

(C) Scope of the audit, including consideration of the internal control structure and tests of compliance with applicable laws and regulations;

(D) Provisions that the auditor will communicate, in writing, to the district material weaknesses or reportable conditions in the internal control structure, instances of non-compliance with applicable laws and regulations and other areas of possible improvement;

(E) Provision that all workpapers, etc., will be made available to the state auditor for his/her review upon his/her request;

(F) Provision that the auditor will comply with applicable rules issued by the state auditor under 15 CSR 40;

(G) Provision that the auditor will discuss with the district any factors s/he may discover which would prevent him/her from issuing an unqualified opinion on the financial statements and allow the district and the auditor the opportunity to arrive at a resolution acceptable to both;

(H) Statement of the auditor's responsibility for detection of errors, irregularities and illegal acts; and

(I) The estimated cost of the audit and the rates which are the basis for that estimate.

(4) The district must file a copy of the completed audit report with the state auditor within six (6) months after the close of the audit period. If any audit report fails to comply with promulgated rules, the state auditor will notify the district and specify the defects. If the specified defects are not corrected within ninety (90) days from the date of the state auditor's notice to the district, or if a copy of the required audit report has not been received by the state auditor within the specified time, the state auditor will make, or cause to be made, the required audit at the expense of the district.

*Auth: section 321.690, RSMo (Cum. Supp. 1993). * Original rule filed May 12, 1978, effective Sept. 11, 1978. Amended: Filed Dec. 2, 1985, effective Feb. 13, 1986. Amended: Filed June 14, 1994, effective Nov. 30, 1994.*

**Original authority 1977, amended 1981, 1986, 1991, 1993.*

**15 CSR 40-4.020 Standards for Auditing
and Financial Reporting**

PURPOSE: The state auditor has authority to establish standards and reporting requirements for audits performed on fire protection districts in St. Louis and Greene Counties. This rule sets forth standards for the auditing and financial reporting of the district.

(1) The independent auditor shall meet all requirements of Chapter 326, RSMo. The auditor must be able to demonstrate that s/he meets the independence criteria contained in the code of professional ethics and rules of conduct promulgated by the Missouri State Board of Accountancy.

(2) The independent auditor shall provide to the state auditor reasonable notification of any entrance or exit conferences held with the district. This notification shall be sufficiently

in advance to allow the state auditor to attend the entrance or exit conference at his/her discretion. Upon request, the independent auditor shall provide a draft copy of the audit report and management letter to the state auditor prior to the exit conference.

(3) The audit shall conform to the standards for auditing of governmental organizations, programs, activities and functions as established by the comptroller general of the United States.

(4) The financial statements, supplementary data and accompanying notes shall be presented in conformity with generally accepted accounting principles.

*Auth: section 321.690, RSMo (Cum. Supp. 1993). * Original rule filed May 12, 1978, effective Sept. 11, 1978. Amended: Filed Dec. 2, 1985, effective Feb. 13, 1986. Amended: Filed June 14, 1994, effective Nov. 30, 1994.*

**Original authority 1977, amended 1981, 1986, 1991, 1993.*

**15 CSR 40-4.030 Contents of Audit
Reports**

PURPOSE: The state auditor has authority to establish standards and reporting requirements for audits performed on fire protection districts in St. Louis and Greene Counties. This rule describes required and suggested information to be included in the audit reports.

(1) Standards for auditing and financial reporting of fire protection districts are given in 15 CSR 40-4.020.

(2) All audit reports shall contain:

(A) A table of contents;

(B) A report on the financial statements;

(C) Combined financial statements and appropriate note disclosures;

(D) Other financial information which includes, but is not limited to, the following:

1. Supplemental schedule of expenditures/expenses by object, if not included in the financial statements;

2. Tax rates and assessed valuation;

3. Schedule of insurance in force which shall include, in addition to other information, the agent for each policy; and

4. Principal officeholders who held office during the period under audit, compensation received by each official in performance of his/her duty and all other compensation or reimbursement of expenses made by the district to each officeholder; and



(E) A report on the consideration of the internal control structure, a report on the tests of compliance with applicable laws and regulations and a management letter communicating areas of possible improvement not otherwise reported. The required scope of audit for the reports and management letter is set forth in 15 CSR 40-4.040(3). The reports and management letter shall include the findings and recommendations, if any, which the auditor developed during his/her audit and the district's responses to those findings and recommendations. The reports and management letter shall also indicate the nature of previous recommendations and the extent to which the district has implemented those recommendations.

(3) If the district or the auditor deems it appropriate, audit reports may contain or utilize the following:

(A) A history and organization section prepared by the district (unaudited);

(B) Comparative financial data for one (1) or more years; and

(C) Other statements, exhibits, schedules or analyses as deemed necessary or appropriate by the district or the auditor.

*Auth: section 321.690, RSMo (Cum. Supp. 1993). * Original rule filed May 12, 1978, effective Sept. 11, 1978. Amended: Filed Dec. 2, 1985, effective Feb. 13, 1986. Amended: Filed June 14, 1994, effective Nov. 30, 1994.*

**Original authority 1977, amended 1981, 1986, 1991, 1993.*

15 CSR 40-4.040 Scope of Audit

PURPOSE: *The state auditor has authority to establish standards and reporting requirements for audits performed on fire protection districts in St. Louis and Greene Counties. This rule sets forth the scope of the audit.*

(1) Nothing in the rules promulgated for audits of fire protection districts shall be construed as restricting, limiting or relieving the independent auditor of his/her professional judgment or responsibility.

(2) The audit shall include those tests of the accounting records and other auditing procedures which the independent auditor considers necessary in the circumstances to conform to the standards for auditing of governmental organizations, programs, activities and functions as established by the comptroller general of the United States.

(3) As part of the audit described in section (2), the auditor will obtain an understanding of the internal control structure, assess control risk and report any material weaknesses or reportable conditions. The auditor will also test compliance with applicable laws and regulations and report all material instances of noncompliance. As a part of, or in addition to, audit tests or procedures which may be necessary for the audit, the auditor shall—

(A) Review systems, procedures and management practices, including:

1. Review cash management practices to the extent necessary to determine whether significant improvements appear practicable and economically justifiable;

2. Evaluate the purchasing function to the extent necessary to determine that the district generally receives fair value, for example, bidding of significant purchases; that purchases generally represent items consistent with the function of the district; and that there is not significant likelihood of misuse or misappropriation of the district's resources through the purchasing process;

3. Review fixed asset records and procedures to the extent necessary to determine that fixed assets are properly recorded, physically controlled and in the possession of the district;

4. Review fidelity bond coverages to determine that all persons with access to assets of the district appear covered in sufficient amounts;

5. Evaluate the budgeting practices to the extent necessary to determine whether significant improvements appear practicable and economically justifiable;

6. Review related party transactions;

7. Review evaluate other areas as required by the district; and

8. Review significant areas or matters which come to the attention of the auditor;

(B) The auditor will note areas of possible improvement in the district's systems, procedures and management practices. In evaluating district systems, procedures and management practices, the auditor should consider whether improvements appear practicable and economically justifiable.

(C) Test compliance with applicable laws and regulations, including:

1. Design the audit to provide reasonable assurance of detecting errors, irregularities and illegal acts that could have a direct and material effect on the financial statements;

2. Be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements; and

3. Test compliance with other legal provisions as s/he deems necessary or appropriate in the circumstances.

(D) Legal provisions which the auditor should consider in his/her audit include, but are not limited to, the following:

1. Article III, Sections 38(a) and 39(3) and Article VI, Section 25, *Constitution of Missouri* limitations on use of funds and credit;

2. Article VI, Section 26, *Constitution of Missouri* limitations on indebtedness without popular vote;

3. Article VI, Section 29, *Constitution of Missouri* application of funds derived from public debts;

4. Article VII, Section 6, *Constitution of Missouri* penalty for nepotism;

5. Chapter 67, RSMo budgetary requirements;

6. Sections 70.210 to 70.230 and Section 432.070, RSMo contracts;

7. Section 105.145, RSMo annual report;

8. Chapter 105, RSMo conflict of interest;

9. Chapter 108, RSMo bond issues;

10. Chapter 321, RSMo fire protection districts;

11. Other applicable portions of the *Constitution of Missouri* and the *Missouri Revised Statutes*;

12. Applicable sections of *Code of State Regulations*; and

13. Other applicable legal provisions.

(4) The auditor shall report on the reviews and examinations required by this rule in a management letter as set forth in 15 CSR 40-4.030 (2)(E).

*Auth: section 321.690, RSMo (Cum. Supp. 1993). * Original rule filed May 12, 1978, effective Sept. 11, 1978. Amended: Filed Dec. 2, 1985, effective Feb. 13, 1986. Amended: Filed June 14, 1994, effective Nov. 30, 1994.*

**Original authority 1977, amended 1981, 1986, 1991, 1993.*